

Ms. Donna Nackers, Assistant Director of Reimbursement  
Mariner Post-Acute Network  
One Ravinia Drive, Suite 1500  
Atlanta, Georgia 30346

Re: AC# 3-HAL-M6 – GranCare South Carolina, Inc. d/b/a Hallmark Health Care Center

Dear Ms. Nackers:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period June 3, 1996 through December 31, 1996. That report was used to set the rate covering the contract periods beginning January 1, 1997.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Robert M. Kerr

**GRANCARE SOUTH CAROLINA, INC.  
D/B/A HALLMARK HEALTH CARE CENTER  
SUMMERVILLE, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING JANUARY 1, 1997  
AC# 3-HAL-M6**

**REPORT ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 23, 1999

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GranCare South Carolina, Inc. d/b/a Hallmark Health Care Center, for the contract periods beginning January 1, 1997, and for the seven month cost report period ended December 31, 1996, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GranCare South Carolina, Inc. d/b/a Hallmark Health Care Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summaries of Costs and Total Patient Days, and Cost of Capital Reimbursement Analyses sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and GranCare South Carolina, Inc. d/b/a Hallmark Health Care Center dated as of June 3, 1996 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
September 23, 1999

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA  
State Auditor

**HALLMARK HEALTH CARE CENTER**

Computation of Rate Change  
For the Contract Periods  
Beginning January 1, 1997  
AC# 3-HAL-M6

	<u>01/01/97-</u> <u>09/30/97</u>	<u>10/01/97-</u> <u>09/30/98</u>
Interim reimbursement rate	(1) \$83.63	(2) \$86.39
Adjusted reimbursement rate	<u>80.04</u>	<u>81.03</u>
Decrease in reimbursement rate	\$ <u>3.59</u>	\$ <u>5.36</u>

(1) Interim reimbursement rate from South Carolina Department of Health and Human Services letter dated August 26, 1999

(2) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 8, 1998

**HALLMARK HEALTH CARE CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Periods January 1, 1997 Through September 30, 1997  
AC# 3-HAL-M6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$2.79	\$35.13	\$39.84	\$35.13
Dietary	<u>.66</u>	<u>8.41</u>	<u>9.46</u>	<u>8.41</u>
Subtotal	<u>\$3.45</u>	43.54	49.30	43.54
Laundry/Housekeeping/Maint.	\$ .71	6.61	7.32	6.61
Administration & Med. Rec.	<u>-</u>	<u>18.30</u>	<u>8.60</u>	<u>8.60</u>
Subtotal	<u>\$ .71</u>	68.45	<u>\$65.22</u>	58.75
<u>Costs Not Subject to Standards:</u>				
Utilities		1.95		1.95
Special Services		1.55		1.55
Medical Supplies & Oxygen		2.76		2.76
Taxes and Insurance		1.88		1.88
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$76.59</u>		66.89
Inflation Factor (4.90%)				3.28
Cost of Capital				7.87
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				.71
Cost Incentive - For General Services and Dietary				3.45
Effect of \$1.75 Cap on Cost/Profit Incentives				(2.41)
Minimum Wage Add-On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$80.04</u>

**HALLMARK HEALTH CARE CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Periods October 1, 1997 Through September 30, 1998  
AC# 3-HAL-M6

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$35.13	\$41.81	
Dietary		8.41	9.74	
Laundry/Housekeeping/Maint.		<u>6.61</u>	<u>7.72</u>	
Subtotal	\$ <u>4.15</u>	50.15	59.27	\$50.15
Administration & Med. Rec.	\$ <u>-</u>	<u>18.30</u>	<u>9.45</u>	<u>9.45</u>
Subtotal		68.45	\$ <u>68.72</u>	59.60
<u>Costs Not Subject to Standards:</u>				
Utilities		1.95		1.95
Special Services		1.55		1.55
Medical Supplies & Oxygen		2.76		2.76
Taxes and Insurance		1.88		1.88
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		\$ <u>76.59</u>		67.74
Inflation Factor (4.40%)				2.98
Cost of Capital				8.06
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				4.15
Effect of \$1.75 Cap on Cost/Profit Incentives				(2.40)
Minimum Wage Add-On				<u>.50</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				\$ <u>81.03</u>



**HALLMARK HEALTH CARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended December 31, 1996  
For the Contract Periods January 1, 1997 Through September 30, 1997  
AC# 3-HAL-M6

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$ 672,584	\$ -	\$ 20,807 (3) 4,553 (9) 4,433 (10) 214 (10)	\$ 642,577
Dietary	156,354	-	1,615 (4) 848 (10)	153,891
Laundry	27,266	-	79 (10)	27,187
Housekeeping	48,597	284 (14)	72 (10) 2,666 (15)	46,143
Maintenance	52,389	297 (14)	2,330 (5) 49 (10) 2,730 (15)	47,577
Administration & Medical Records	342,134	1,306 (14)	2,550 (10) 6,119 (15)	334,771
Utilities	42,236	240 (14)	4,863 (6) 2,018 (15)	35,595
Special Services	3,120	28,331 (12)	3,119 (11)	28,332
Medical Supplies & Oxygen	64,523	-	1,355 (8) 12,653 (9) 63 (11)	50,452
Taxes & Insurance	54,396	300 (14)	18,576 (7) 1,815 (15)	34,305

**HALLMARK HEALTH CARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended December 31, 1996  
For the Contract Periods January 1, 1997 Through September 30, 1997  
AC# 3-HAL-M6

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Legal Fees	-	-	-	-
Cost of Capital	151,343	7,873 (2) 1,647 (14) <u>1,066 (16)</u>	15,924 (1) 2,011 (15) <u></u>	143,994
Subtotal	1,614,942	41,344	111,462	1,544,824
Ancillary	35,193	1,484 (3)	-	36,677
Non-Allowable	184,476	15,924 (1) 1,484 (5) 1,454 (6) 1,074 (8) 17,206 (9) 3,182 (11) <u>17,359 (15)</u>	7,873 (2) 299 (10) 28,331 (12) 4,074 (14) 1,066 (16) <u></u>	200,516
Total Operating Expenses	<u>\$1,834,611</u>	<u>\$100,511</u>	<u>\$153,105</u>	<u>\$1,782,017</u>
Total Patient Days	<u>18,289</u>	<u>-</u>	<u>-</u>	<u>18,289</u>
Total Beds	<u>88</u>			

**HALLMARK HEALTH CARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended December 31, 1996  
For the Contract Periods October 1, 1997 Through September 30, 1998  
AC# 3-HAL-M6

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$ 672,584	\$ -	\$ 20,807 (3) 4,553 (9) 4,433 (10) 214 (10)	\$ 642,577
Dietary	156,354	-	1,615 (4) 848 (10)	153,891
Laundry	27,266	-	79 (10)	27,187
Housekeeping	48,597	284 (14)	72 (10) 2,666 (15)	46,143
Maintenance	52,389	297 (14)	2,330 (5) 49 (10) 2,730 (15)	47,577
Administration & Medical Records	342,134	1,306 (14)	2,550 (10) 6,119 (15)	334,771
Utilities	42,236	240 (14)	4,863 (6) 2,018 (15)	35,595
Special Services	34,183	-	3,119 (11) 2,732 (13)	28,332
Medical Supplies & Oxygen	64,523	-	1,355 (8) 12,653 (9) 63 (11)	50,452
Taxes & Insurance	54,396	300 (14)	18,576 (7) 1,815 (15)	34,305

**HALLMARK HEALTH CARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended December 31, 1996  
For the Contract Periods October 1, 1997 Through September 30, 1998  
AC# 3-HAL-M6

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Legal Fees	-	-	-	-
Cost of Capital	155,076	7,873 (2) 1,647 (14) <u>756 (17)</u>	15,924 (1) 2,011 (15)	147,417
Subtotal	1,649,738	12,703	114,194	1,548,247
Ancillary	35,193	1,484 (3)	-	36,677
Non-Allowable	149,680	15,924 (1) 1,484 (5) 1,454 (6) 1,074 (8) 17,206 (9) 3,182 (11) 2,732 (13) <u>17,359 (15)</u>	7,873 (2) 299 (10) 4,074 (14) 756 (17)	197,093
Total Operating Expenses	<u>\$1,834,611</u>	<u>\$74,602</u>	<u>\$127,196</u>	<u>\$1,782,017</u>
Total Patient Days	<u>18,289</u>	<u>-</u>	<u>-</u>	<u>18,289</u>
Total Beds	<u>88</u>			

**HALLMARK HEALTH CARE CENTER**  
Adjustment Report  
Cost Report Period Ended December 31, 1996  
AC# 3-HAL-M6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Other Equity	\$123,916	
	Nonallowable	15,924	
	Fixed Assets		\$ 60,254
	Accumulated Depreciation		63,662
	Cost of Capital		15,924
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Sections 2102.3 and 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	7,873	
	Nonallowable		7,873
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Retained Earnings	19,323	
	Ancillary	1,484	
	Nursing		20,807
	To properly charge expense applicable to the prior period and reclassify expense to the proper cost center HIM-15-1, Section 2302.1 DH&HS Expense Crosswalk		
4	Retained Earnings	1,615	
	Dietary		1,615
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
5	Nonallowable	1,484	
	Retained Earnings	846	
	Maintenance		2,330
	To properly charge expense applicable to the prior period and disallow expense due to the lack of documentation HIM-15-1, Sections 2302.1 and 2304		

**HALLMARK HEALTH CARE CENTER**  
Adjustment Report  
Cost Report Period Ended December 31, 1996  
AC# 3-HAL-M6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable	1,454	
	Retained Earnings	5,359	
	Accounts Payable		1,950
	Utilities		4,863
	To properly charge expense applicable to the prior and subsequent periods and disallow cable TV expense HIM-15-1, Sections 2302.1 and 2106		
7	Retained Earnings	18,576	
	Taxes and Insurance		18,576
	To adjust property taxes to actual HIM-15-1, Section 2302.1		
8	Nonallowable	1,074	
	Retained Earnings	281	
	Medical Supplies		1,355
	To properly charge expense applicable to the prior period and disallow expense due to lack of documentation HIM-15-1, Sections 2302.1 and 2304		
9	Nonallowable	17,206	
	Nursing		4,553
	Medical Supplies		12,653
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		
10	Accrued Salaries	8,544	
	Nursing		4,433
	Restorative		214
	Dietary		848
	Laundry		79
	Housekeeping		72
	Maintenance		49
	Administration		2,550
	Nonallowable		299
	To properly charge salaries applicable to the subsequent period HIM-15-1, Section 2302.1		

**HALLMARK HEALTH CARE CENTER**  
Adjustment Report  
Cost Report Period Ended December 31, 1996  
AC# 3-HAL-M6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Nonallowable	3,182	
	Medical Supplies		63
	Special Services		3,119
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
12	Special Services	28,331	
	Nonallowable		28,331
	To adjust co-insurance for Medicare Part B services to allowable State Plan, Attachment 4.19D		
	(This adjustment applies only to the rate periods 1/1/97 - 9/30/97)		
13	Nonallowable	2,732	
	Special Services		2,732
	To adjust co-insurance for Medicare Part B services to allowable State Plan, Attachment 4.19D		
	(This adjust applies only to the rate periods 10/1/97 - 9/30/98)		
14	Housekeeping	284	
	Maintenance	297	
	Administration	1,306	
	Utilities	240	
	Taxes and Insurance	300	
	Cost of Capital	1,647	
	Nonallowable		4,074
	To reverse DH&HS adjustment to remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

**HALLMARK HEALTH CARE CENTER**  
Adjustment Report  
Cost Report Period Ended December 31, 1996  
AC# 3-HAL-M6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
15	Nonallowable	17,359	
	Housekeeping		2,666
	Maintenance		2,730
	Administration		6,119
	Utilities		2,018
	Taxes and Insurance		1,815
	Cost of Capital		2,011
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
16	Cost of Capital	1,066	
	Nonallowable		1,066
	To adjust capital return to allowable State Plan, Attachment 4.19D  (This adjustment applies only to the rate periods 1/1/97 - 9/30/97)		
17	Cost of Capital	756	
	Nonallowable		756
	To adjust capital return to allowable State Plan, Attachment 4.19D  (This adjustment applies only to the rate periods 10/1/97 - 9/30/98)		
	TOTAL ADJUSTMENTS	<u>\$282,459</u>	<u>\$282,459</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.



**HALLMARK HEALTH CARE CENTER**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended December 31, 1996  
 For the Contract Periods January 1, 1997 Through September 30, 1997  
 AC# 3-HAL-M6

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.0472</u>
Deemed Asset Value (Per Bed)	31,973
Number of Beds	<u>88</u>
Deemed Asset Value	2,813,624
Improvements Since 1981	39,396
Accumulated Depreciation at 12/31/96	<u>(285,144)</u>
Deemed Depreciated Value	2,567,876
Market Rate of Return	<u>0.070</u>
Total Annual Return	179,751
Number of Days in Period	<u>212/365</u>
Adjusted Annual Return	104,403
Return Applicable to Non-Reimbursable Cost Centers	(1,073)
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>1,589</u>
Allowable Annual Return	104,919
Depreciation Expense	41,086
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(2,011)</u>
Allowable Cost of Capital Expense	143,994
Total Patient Days (Actual)	<u>18,289</u>
Cost of Capital Per Diem	\$ <u>7.87</u>

**HALLMARK HEALTH CARE CENTER**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended December 31, 1996  
 For the Contract Periods October 1, 1997 Through September 30, 1998  
 AC# 3-HAL-M6

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.1144</u>
Deemed Asset Value (Per Bed)	33,022
Number of Beds	<u>88</u>
Deemed Asset Value	2,905,936
Improvements Since 1981	39,396
Accumulated Depreciation at 12/31/96	<u>(285,144)</u>
Deemed Depreciated Value	2,660,188
Market Rate of Return	<u>0.070</u>
Total Annual Return	186,213
Number of Days in Period	<u>212/366</u>
Adjusted Annual Return	107,861
Return Applicable to Non-Reimbursable Cost Centers	(1,108)
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>1,589</u>
Allowable Annual Return	108,342
Depreciation Expense	41,086
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(2,011)</u>
Allowable Cost of Capital Expense	147,417
Total Patient Days (Actual)	<u>18,289</u>
Cost of Capital Per Diem	\$ <u>8.06</u>